

State of [REDACTED]: An Integrated Assessment of Financial Health (2018–2023)

December 2024

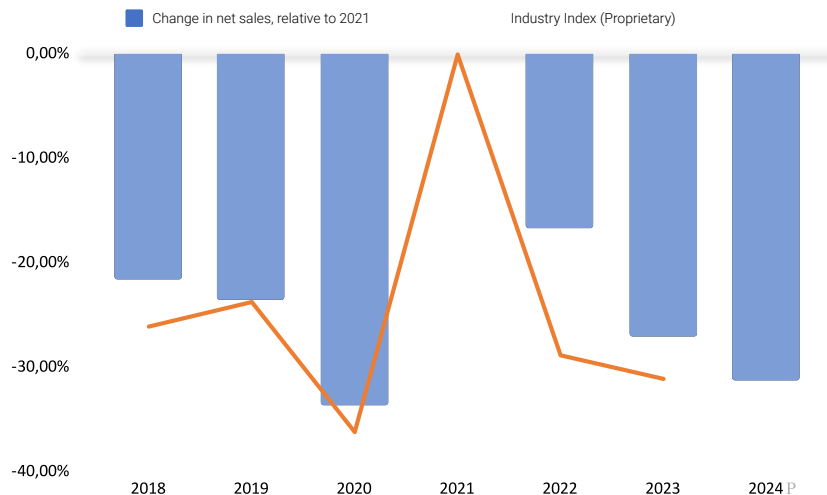


Revenue Trends

A detailed analysis reveals no discernible trend in [REDACTED]'s revenue growth relative to industry.

Key Findings:

- Considerable 2018-2023 revenue fluctuations: up to 34%.
- When compared (using [REDACTED]'s USD-based landings data for [REDACTED]) to a virtual benchmark¹ enterprise having the same [REDACTED]/other revenue shares, [REDACTED] appears to have performed (in terms of revenue purely) similar to comparable competitors.



¹ Direct sales comparisons with an abstract industry benchmark are inappropriate, as such benchmarks may include companies operating in different regions, with different products, and on different scales. Comparisons should focus on specific [REDACTED] and [REDACTED] within a strictly defined region, given regional and species-specific [REDACTED] regulations. Superior sales performance by a company in another region or with a different profile may not necessarily reflect superior marketing and distribution strategies. For this analysis, we substitute [REDACTED] data for [REDACTED] and [REDACTED] in [REDACTED]. We do not further break down the remaining small fraction of sales from other species and Canada due to the short time series and the inherent approximate nature of our estimate. Regarding the baseline year, time series econometrics, especially with limited data, requires selecting a baseline that minimizes the overall series' standard deviation. Therefore, we chose 2021 as the baseline (for estimating the economic effect, the specific choice of baseline—beginning, end, or another point—is inconsequential). Raw data: [https://docs.google.com/spreadsheets/\[REDACTED\]](https://docs.google.com/spreadsheets/[REDACTED])

Operating Losses and Cost Structures

██████ has consistently operated at a net loss since 2018. While revenue improvement remains challenging, cost reduction is pivotal to achieving profitability.

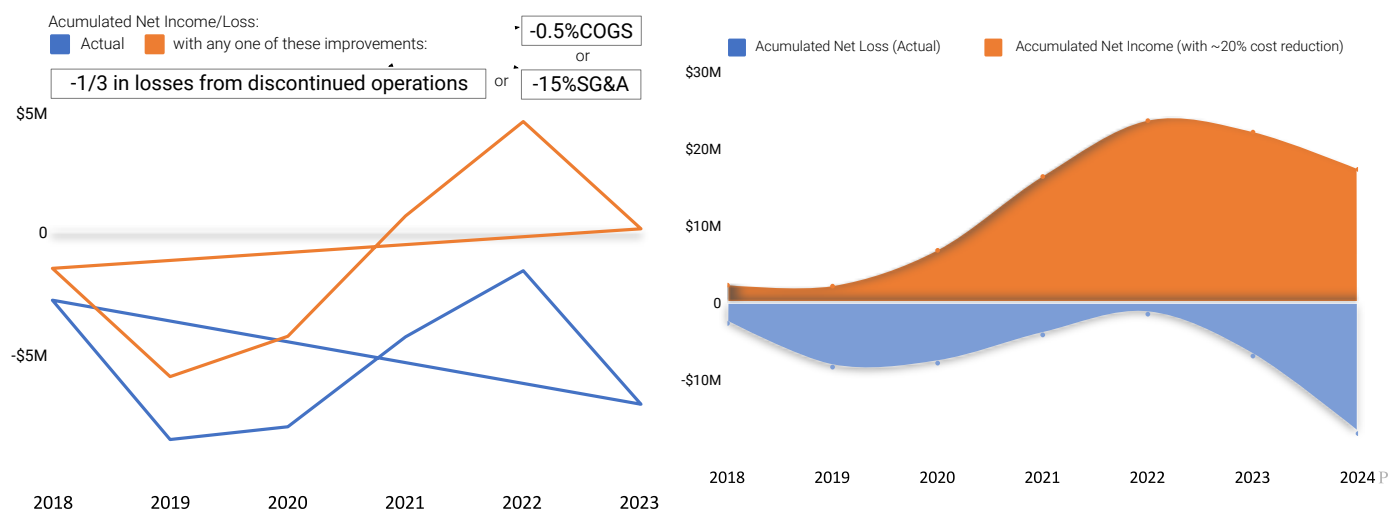
Cost Reduction Requirements²

- COGS: A 0.5% reduction (in absolute terms) might have stabilized the margins (or, when compared to the ██████'s weighted average margin of 7.5%, a needed reduction is $0.5/7.5 \sim 6.6\%$).
- SG&A: Required a 15% improvement.
- Losses from Discontinued Operations³: A 33% reduction was critical.

No single issue accounts for ██████'s financial challenges; key areas of concern include:

- COGS: Persistent pressure on margins, driven by operational inefficiencies.
- SG&A: High administrative costs weigh heavily on profitability.
- Discontinued Operations: Legacy losses continue to impact financials.

The following charts compare actual income (blue) with potential income (orange), assuming the proposed cost reductions had been implemented earlier:



² The requirements are formed as follows. First, we identify cost items whose reduction could eliminate losses during the study period. Significant reductions or even elimination of costs in all but three P&L lines could not achieve this. For the three categories (COGS, SG&A, and losses from discontinued operations), reasonably reducing costs within a single category could achieve the goal. This confirms the validity of this assessment approach. Second, we estimate the impact of a feasible 20% cost reduction across all three categories. Over the six-year study period, cumulative net income would have reached approximately \$18 million (the intersection of the smooth yellow line with the 2024P vertical). Extrapolating this over 15 years (from 2015 to 2030), a potential \$45 million (\$18 million * 15 years / 6 years) could be offset.

³ Given management's acknowledgment that discontinued operations reporting "requires the use of significant judgment and estimates. Matters...are inherently uncertain, and different amounts could be reported using different assumptions" (Note 2 of the ██████ and Subsidiaries Consolidated Financial Statements Years Ended January 2, 2002 and January 3, 2021"), this loss warrants separate reporting. To conduct the audit, we will formally request the following: contracts validating all relevant sales of property and equipment, agreements related to stock transfers, and a complete list of all associated transactions.

Key Financial Benchmarks⁴ (2018–2023):

Operating Cash Flow: 5M ± 14M (Drivers: Receivables: 21M ± 4M; Allowance for Doubtful Receivables: 0.15M ± 0.07M; Inventories: 55M ± 14M; Inventory Reserve (aging effects): 0.1M → 1.6M)
Inventory turnover rate: 4.3 ± 1 (slightly below the norm⁵)
Financing Cash Flow: -34M to 15M (Driver: Line of Credit: 45M ± 7M; 2021 jump: +50%⁶)
The current ratio: 1.4 ± 0.2 (acceptable⁷)
The quick ratio: 0.55 ± 0.21 (needs improvement⁸)
Total Assets/Liabilities: 132M ± 25M
Equity: 49M ± 3M
Debt-to-Equity Ratio: 1.7 ± 0.5 (high leverage⁹)
Cash: 1.8M ± 1.3M; 2021: x3 spike
Accounts Payable: 8M ± 2M
Long-Term Debt: 3M ± 2M
Interest Expense: 3.5M ± 1M
Discontinued Operations: Assets: 14M → 0M; Liabilities: 5M → 0M
Subordinated Long-Term Debt: 6.5M → 5M
Operating Expenses: 2.3M → 1.7M

⁴ Raw data: <https://docs.google.com/spreadsheets>

⁵ Inventories are the primary driver of operating cash flow. This business, dealing with goods, is heavily reliant on inventory management. We assume an industry-standard inventory turnover rate of 5 to 6, depending on the proportion of differently packaged products. While the average rate is acceptable, we note a concerning sharp decrease in inventory management attention between 2018 and 2019. When valuing inventories, the company must account for reserves needed to address obsolete or overvalued items (e.g., due to aging). While the original metric is in dollars, a percentage representation enhances readability. A natural relative metric reflecting management attention is the year-to-year fluctuation in inventory levels (standard deviation). This is illustrated in the chart in the "Key Milestones (Historical)" chapter below.

⁶ The revolving line of credit has a maximum borrowing limit of \$90 million, subject to borrowing base limitations and seasonal adjustments. We assume the borrowing increase in 2021 was within acceptable limits and resulted from general industry activity.

⁷ The average ratio for publicly traded fishing and companies in the US (2018-2023) is 1.7 ± 0.3 [source: readyratios.com]. s ratio is 1.4 ± 0.2. The ranges overlap by 0.2, or one standard deviation ("sigma"). This is acceptable.

⁸ Similarly, the industry average is 0.85 ± 0.12. s is 0.55 ± 0.21. The ranges overlap by only 0.03. This is a small overlap.

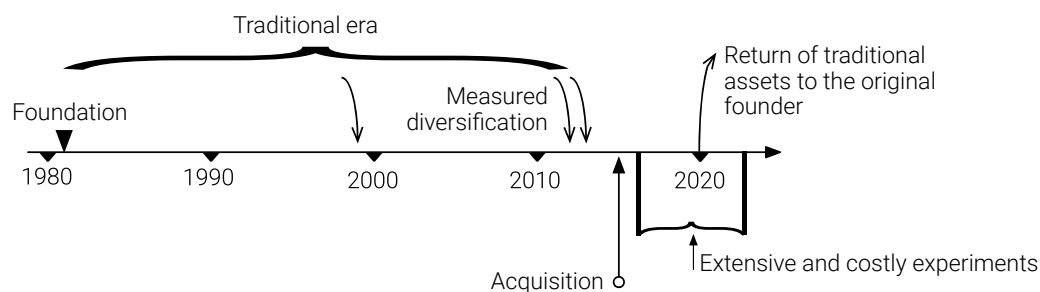
⁹ Likewise, the average is 0.45 ± 0.21, while s ratio is 1.5 ± 0.5. There is no overlap between the ranges.

State of Management

The management team faces significant operational and strategic challenges:

- Product Concentration: Two products account for over two-thirds of sales, while only 13% of products are sold under ██████'s own brands.
- Supply Chain Risks: The top four suppliers provide half of all supplies, and the top three customers contribute to a third (and sometimes half) of revenue.
- Team Disarray: Several key top managers have left the organization recently (as evident from their LinkedIn profiles).

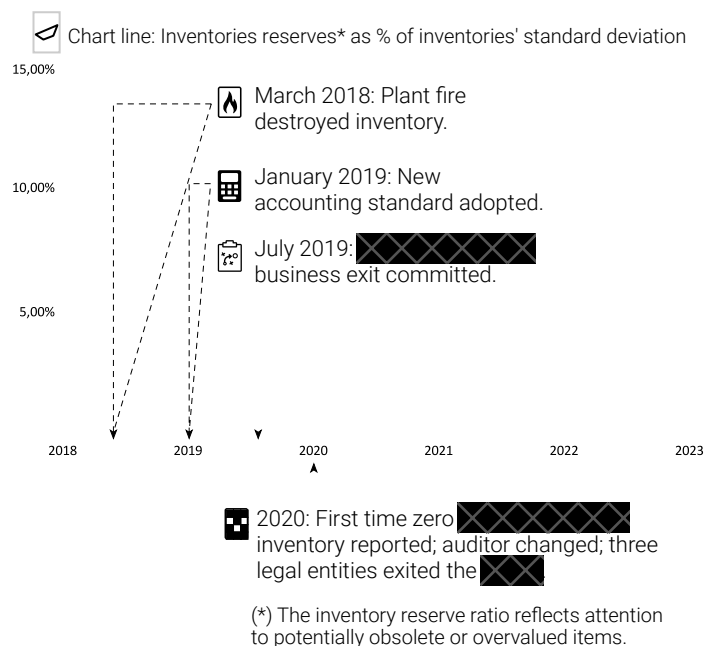
Efforts to implement multiple growth strategies during periods of external crises have diluted ██████'s focus. High costs of strategic “experiments” have diverted attention from traditional strengths and legacy markets.



Potential Fraud and Mismanagement

Key Milestones (Historical):

- 1981: [REDACTED] and [REDACTED] join forces to found [REDACTED]
- 1986: [REDACTED] joins.
- 1995: [REDACTED] helps [REDACTED] to arrange a [REDACTED] next to [REDACTED] airport (Canadian [REDACTED] in the future).
- 2010: partnership with [REDACTED]
- 2012: [REDACTED] acquires [REDACTED] with a help of [REDACTED] bank (now [REDACTED]) — first species-wise diversification; a plant in [REDACTED] acquired; [REDACTED] Acquires [REDACTED]
- 2014: [REDACTED] acquires [REDACTED] plant.
- 2015: [REDACTED] and [REDACTED] form a partnership with equity provider [REDACTED]; [REDACTED] bring new investor aboard their joint venture ([REDACTED]).
- 2017: [REDACTED] product line is born; [REDACTED] steps down from CEO role; [REDACTED] to assume the role of vice president of operations; [REDACTED] joins management team as the new vice president of sales.
- 2016: [REDACTED] facility purchased, [REDACTED] closes [REDACTED] plant, lays off about 200 workers.



- 2018: Fire destroys plant and inventory on [REDACTED]; [REDACTED] launched its [REDACTED] brand; [REDACTED] leaves company for [REDACTED]; [REDACTED] named interim head.
- 2019: Adoption of a new accounting standard; [REDACTED] renovates [REDACTED] plant in [REDACTED]; [REDACTED] closes its [REDACTED] facility; exit from live boxed lobster operations.

- 2020: ██████ remains committed to ██████ brand, despite sale of ██████ facility; ██████ looking at acquisitions to bolster pivot to growth outlook; ██████ forms new ventures based on former ██████ assets.
- 2021: First instance of zero ██████ inventory; ██████ uses the ██████ loan to buy new ██████ processing equipment; ██████ names ██████ as new CEO. ██████ gets rid of 5 (out of 7) meaningful Group entities.
- 2023: ██████ partner on new products featuring ██████, ██████.
- 2024: New facility opens, offering ██████ square feet of production space.

The group of friends: ██████, ██████—a long-standing insider with a role nearly as significant as that of ██████, —and ██████'s wife, ██████, who were the original founders of the company. Later, another childhood friend, ██████ joined the team. This close-knit inner circle has maintained exclusive control over the business for more than 30 years. Their association with ██████ (██████) began in 2012.

There are indications of potential financial engineering prior to the sale to ██████ including:

- A concentration of investment activities and acquisitions (e.g., ██████, ██████).
- Red flags¹⁰ in public statements and discrepancies in historical timelines.

In 2020, Mr. ██████ made several statements in an article by journalist ██████. The full article can be accessed here: archive.ph/██████ Key points include:

- ██████ re-acquired ██████'s ██████ distribution assets through a new holding company, ██████, after selling them to ██████ in 2015.
- ██████ took over ██████'s European offices and personnel, with operations retained in ██████.

Given that Mr. ██████ remained associated with ██████ for five years post-sale, key divisions were restructured in his favor while less viable ventures were left behind. This demands the involvement of lawyers and forensic accountants.

A case study on the ██████¹¹ website (linked ██████) mirrors ██████'s situation, hinting at systematic manipulation. The article (which, ironically, contains several points surprisingly relevant to our

¹⁰ The “decline” phase is evident by comparing timelines: a consistent ██████-centric business operated for three decades, while subsequent changes occurred far more rapidly. Consider an owner who suddenly achieved dramatic growth across key business metrics; wouldn't they want to enjoy that success longer? The inclusion of a “value boosting” phase (2012-2015) would make this more coherent. ██████'s agency was uninvolved shortly before the ██████ deal. ██████, for example, was acquired conventionally through ██████ (formerly ██████, not through the ██████ M&A agency ██████). Our reliance on data from ██████ (as core consultants), rather than from official directors, raises concerns. ██████ also assisted with the acquisition of production sites at auction in 2012-2014, a transaction with questionable aspects. We also doubt the sincerity of the ██████ public relations campaign with the governor. Furthermore, press reports consistently reflect resentment from opposing parties (e.g., ██████ spokesperson for ██████: “There are negotiations pending for use of the facility, however, we are not prepared to announce any agreements at this time.”). The company website omits the period from ██████ to 2017—its most eventful era—from its “Our History” section. This suggests an attempt to downplay this period. Similarly, ██████'s group presentation contains inaccurate and incomplete dates (the ██████ deal is incorrectly dated 2013 instead of 2015; it actually occurred before the sale to ██████).

¹¹ Owned by ██████, a ██████-based company, employs over 8,500 people and operates hundreds of offices in dozens of countries, including ██████ alone.

case) likely refers to the [REDACTED] dispute between [REDACTED], a seafood entrepreneur from [REDACTED] and [REDACTED] businessman [REDACTED]. [REDACTED] purchased 80% of [REDACTED] from [REDACTED] for [REDACTED] million (USD) in [REDACTED] and subsequently entered into litigation with him. [REDACTED] and fellow entrepreneurs witnessed a scenario unfold in their own town: an [REDACTED] businessman invested in a local enterprise only to be defrauded without any repercussions for the perpetrators. This experience likely shaped their perception.

The redistribution of core business units has resulted in operational chaos, with key personnel (e.g., [REDACTED] and [REDACTED]) leaving to competitors and infrastructure failures (e.g., the [REDACTED] plant fire).

Meanwhile, Mr. [REDACTED] continues focusing on the stable core business, while [REDACTED] engages in speculative investments and experimental ventures. Leadership instability further compounds issues.

Conclusions

Without immediate intervention, [REDACTED] will run out of money by [REDACTED]. We recommend:

- Resolve Conflicts of Interest through a thorough review of individuals and entities with potential conflicts. Conduct a forensic audit to investigate transactions involving [REDACTED] and associated entities from 2015 onward. Pursue legal action to recover misappropriated funds.
- Implement crisis management strategy, including replacing the managerial team and taking over operational control of the company.
- Cease Unproven Marketing Initiatives and Implement Cost Reduction Measures: Prioritize SG&A and COGS efficiency to reduce monthly losses (~\$0.5 million).

A once 40-year-old business with \$400M in revenue has now shrunk significantly and lost stability. Assessing the time left before a complete collapse requires on-site investigation and direct engagement with key stakeholders. Remote analysis is no longer sufficient.

Next Steps

To continue our research, we require data to estimate when cash liquidity issues will become critical. Ideally, this would include: projected weekly, monthly, and quarterly cash flow milestones (both inflows and outflows).

We also need data to determine the most recent borrowing base (asset-based lending and other). Please specify the company's reporting frequency on these matters.

We need to know if the credit agreement and any amendments suggest potential forbearance. Please also identify any potential covenant violations.

We require reliable data to calculate the fixed-charge coverage ratio and leverage ratio. The same applies to the trailing twelve-month free cash flow, inventory write-downs and appraisals, loan maturity dates, and total debt (excluding accounts payable and accrued expenses). Please indicate if the bank is restricting borrowing availability.

Finally, as noted previously, we need data for a preliminary audit of discontinued operations losses. This includes contracts for all property and equipment sales, stock transfer agreements, and a complete list of all related transactions.